

AUDIT DIVISION OVERVIEW

**Presented By:
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Chief**

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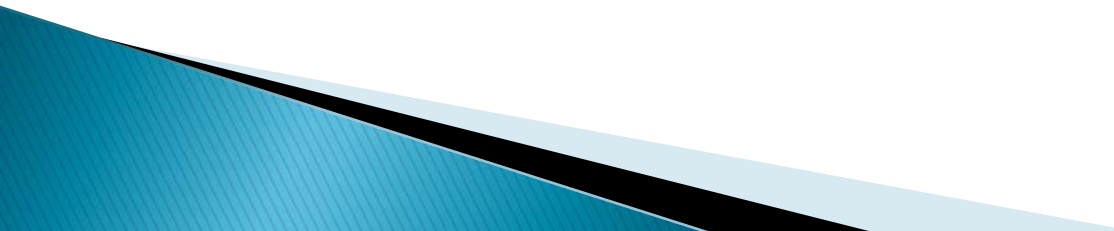
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OVERVIEW

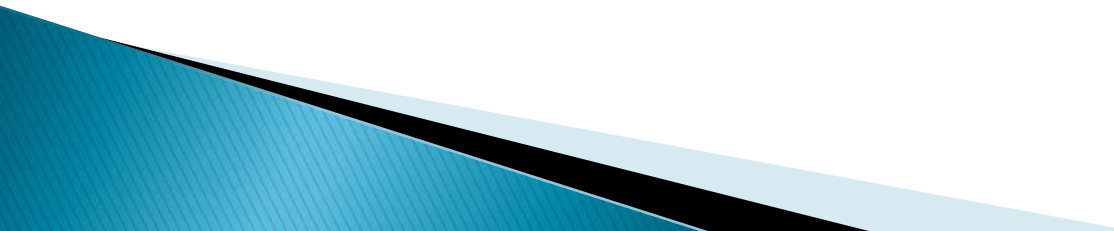
Mission

To obtain, maintain and achieve tax compliance with all District of Columbia tax laws, except real property taxes, through the examination of filed tax returns, identification of non-filers, and unreported tax revenue.




OVERVIEW

Audit Division Units

- ▶ Office Audit Unit
 - ▶ Field Units
 - ▶ Review and Conference Unit
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OVERVIEW

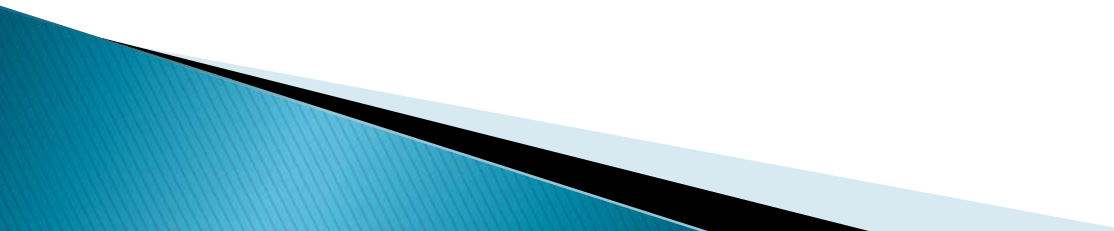
Types of Audits Administered

- ▶ Sales and Use Tax
 - ▶ Corporation Franchise & Unincorporated Franchise Tax
 - ▶ Individual Income Tax
 - ▶ Partnership Tax
 - ▶ Fiduciary Tax
 - ▶ Employee Withholding Tax
 - ▶ Personal Property Tax
 - ▶ Hotel Occupancy Tax
 - ▶ Gross Receipts Tax
 - ▶ Wholesaler's Alcoholic Beverage Tax
 - ▶ Cigarette Tax
 - ▶ Other Tobacco Products Tax
 - ▶ Motor Fuel Tax
 - ▶ Inheritance and Estate Tax
 - ▶ Toll Communication Tax
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OVERVIEW

Selection of Audits

The audit selection process is implemented through a variety of approaches. Listed below are some of the audit selection approaches used to select a single or combined audit:

- ▶ Review of prior productive audits
 - ▶ Other selection methods like pre-audit, adjustment review, and kick-out refund requests
 - ▶ Personal observation
 - ▶ Random selection
 - ▶ Leads from other jurisdictions' audits
 - ▶ Leads from newspapers, magazines, trade publications
 - ▶ Leads from informers
 - ▶ Industrial segment audits
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OVERVIEW

Required Documents If Selected For An Audit

Documents required to be provided by a taxpayer selected for an audit are normally based on the type(s) and scope of the audit to be performed. However, the following are some general documents that a taxpayer may be expected to provide:

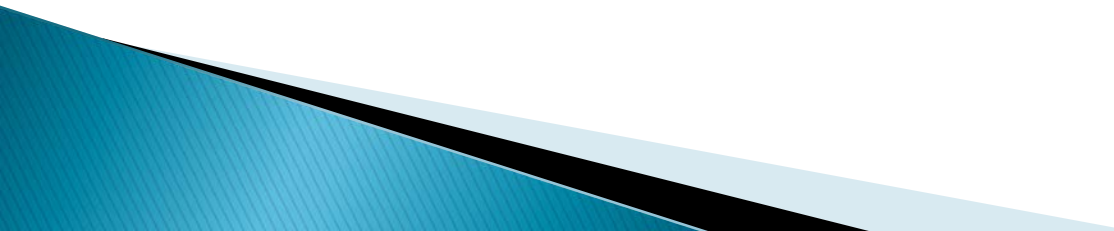
- ▶ All purchases and invoices for the applicable audit period(s)
- ▶ All purchase invoices for capital assets for the applicable audit period(s)
- ▶ General ledgers for sales and purchases for the entire audit period(s)
- ▶ A copy of filed Personal Property tax returns
- ▶ Copies of sales report/sales journal and/or worksheets used to compute the sales and use for the period under audit
- ▶ Copies of exemption certificates, etc
- ▶ Copies of canceled checks
- ▶ Evidence of the deductions claimed on their income tax schedules

TAXPAYER APPEAL RIGHTS

Presented By:
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Review & Conference Unit
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Taxpayer Appeal Rights

Informal Conference

- ▶ There are occasions when a taxpayer may disagree with a decision rendered by the Office of Tax and Revenue's Audit Division. Decisions may include a proposed audit change on a return, denial of a refund request, denial of penalty and/or interest, or a rejection of an offer in compromise.
 - ▶ The taxpayer has the right to appeal the decisions of OTR.
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Taxpayer Appeal Rights

- ▶ To appeal a decision made by OTR, a written request must be filed within 30 days from the date of the notice.
- ▶ Requests must be mailed to:
 - The Office of Tax and Revenue
 - Audit Division
 - PO Box 556
 - Washington, DC 20044

Taxpayer Appeal Rights

- ▶ Taxpayer will be notified of the time and place of the informal conference within 30 days from the receipt of the request
- ▶ The date set for the informal conference may be postponed once at the request of the taxpayer and once at the request of the Review and Conference unit

If you disagree with the findings in the informal conference, you may

- ▶ Petition the Office of Administrative Hearings (“OAH”) or
- ▶ Petition the District of Columbia Superior Court (“Superior Court”)

Taxpayer Appeal Rights

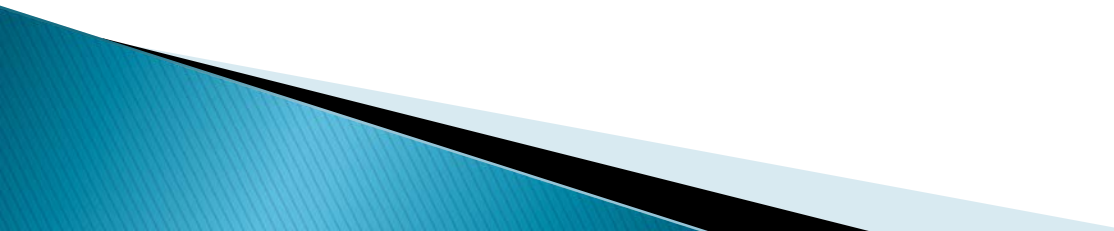
Appeal Rights

- ▶ To request an administrative appeal, you must file a Notice of Intent to petition for appeal with the OAH within 30 days of the informal conference decision.
- ▶ **Or alternatively**, a taxpayer may choose to appeal OTR's decision regarding any assessment of a deficiency in tax or the denial of any claim for refund directly to the Superior Court within six (6) months of receiving the Notice. However, the taxpayer must first pay the base tax, penalty, and interest prior to petitioning Superior Court. §§ 2-1831.03, 47-1815.01; 47-3303; and 47-4312. of the Official Code of the District of Columbia ("DC Code").

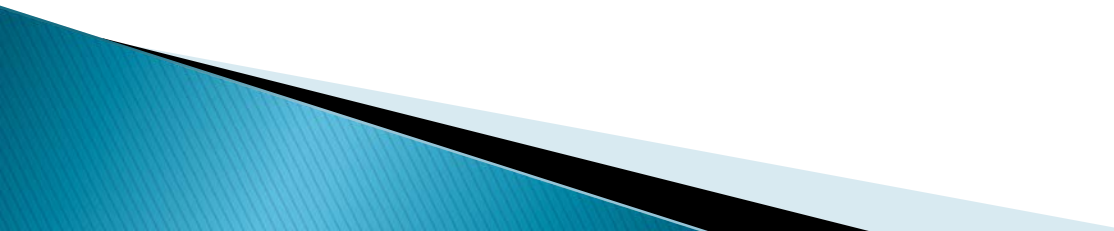
VOLUNTARY DISCLOSURE and EXEMPT ORGANIZATIONS

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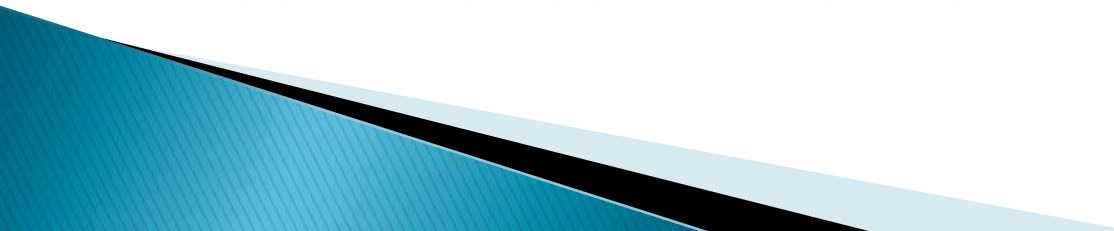
VOLUNTARY DISCLOSURE PROGRAM

- ▶ To encourage individuals and businesses that are not current in filing their District tax returns to come forward voluntarily to bring their accounts into compliance.
 - ▶ If a taxpayer or business has failed to pay District taxes or has underreported income on which taxes should be paid, the taxpayer may contact OTR to make satisfactory arrangements to clear their tax record.
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GUIDELINES FOR ANY VOLUNTARY DISCLOSURE APPLICANT

1. Any taxpayer can apply to remedy any tax obligation under voluntary disclosure except for tax liability under the authority of the Real Property Tax Administration.
 2. In most cases, OTR will agree to limit the look-back period to the lesser of three years or the date when the taxpayer established nexus in the District of Columbia. In egregious situations, however, OTR may require a five-year look-back period.
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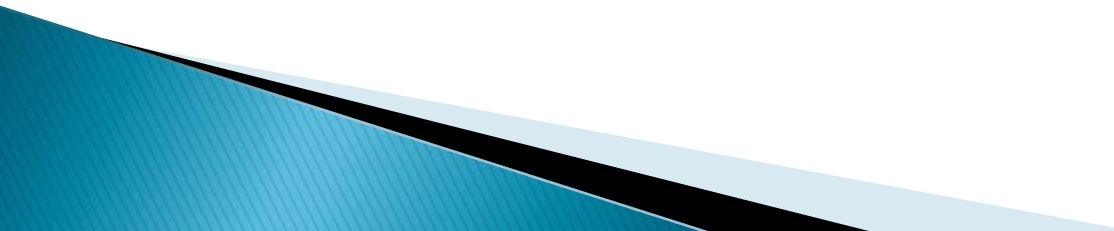
GUIDELINES FOR ANY VOLUNTARY DISCLOSURE APPLICANT

3. For sales or gross receipts tax cases, if the taxpayer collected sales tax or reimbursement for gross receipts tax from their customers, but did not remit the tax to the District of Columbia, the look-back period imposed will be the greater of five years or the date nexus was established in the District of Columbia.
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GUIDELINES FOR ANY VOLUNTARY DISCLOSURE APPLICANT

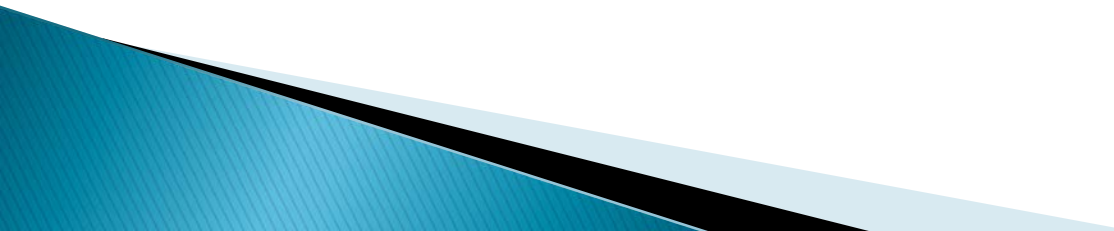
4. If the tax liability in certain cases is a substantial amount, OTR may agree to establish a payment agreement if an adequate amount is paid up-front. However, if the taxpayer fails to make any scheduled payments in a timely manner, the agreement could be considered as null and void. OTR reserves the right to assess additional penalty and interest on the remaining balance of tax due at that time.

GUIDELINES FOR ANY VOLUNTARY DISCLOSURE APPLICANT

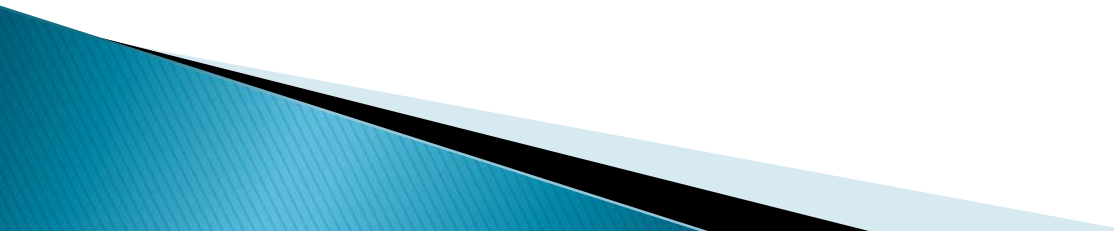
5. For nonprofit organizations that already have their tax-exempt status approved by OTR, voluntary disclosure may be used to cover unreported Unrelated Business Income (UBI) from prior years. Corporations report UBI to the District of Columbia using Form D-20; all others use Form D-30.
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GUIDELINES FOR ANY VOLUNTARY DISCLOSURE APPLICANT

6. If a nonprofit does not already have their tax-exempt status approved by OTR, they must file Form FR-164, Application for Exemption, and report any prior-year UBI. Nonprofits can also use the voluntary disclosure process to report any prior-year taxes (i.e. franchise, personal property, sales, use, arena, etc.) that should have been paid.



Benefits of participating in the program

- ▶ Taxpayers can remain anonymous while investigating whether this program is right for them or their business;
 - ▶ In most cases, OTR will agree to limit the “look-back” period to the lesser of three years or the date when the taxpayer established business in the District;
 - ▶ Waiver of penalties if the tax and interest is paid in full;
 - ▶ OTR may agree to establish a payment agreement if an adequate amount is paid in full; and
 - ▶ The ability to file returns in a spreadsheet format instead of filing a return for each period involved.
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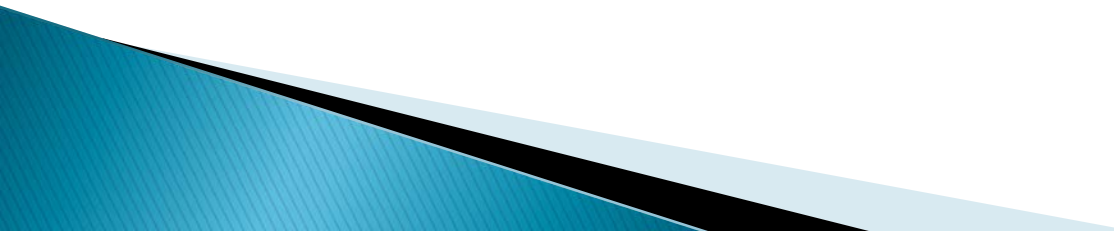
WHO IS NOT ELIGIBLE?

The taxpayer is not eligible for the voluntary disclosure program if:

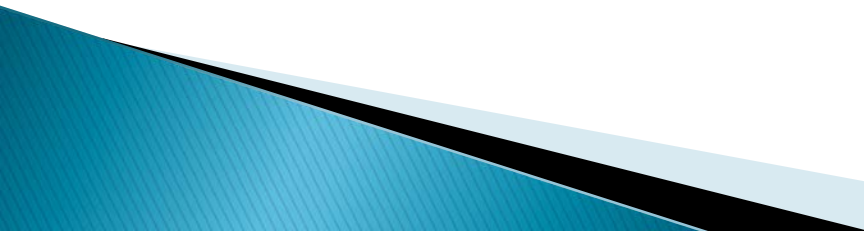
- ▶ the taxpayer has been contacted by OTR or its representatives, Multistate Commission, or
- ▶ if there is any collection action or an open audit case.

TAX EXEMPTIONS

QUALIFICATIONS

- ▶ The responsibility for establishing tax exempt shall rest upon the organization.
 - ▶ An organization that is recognized as tax exempt by the Internal Revenue Service (IRS) is not automatically recognized tax exempt under the laws of DC.
 - ▶ In order to establish tax exemption, an organization shall file a Form FR-164 (Application for Exemption) with the OTR, Exempt Organizations, PO Box 556, Washington, DC 20044.
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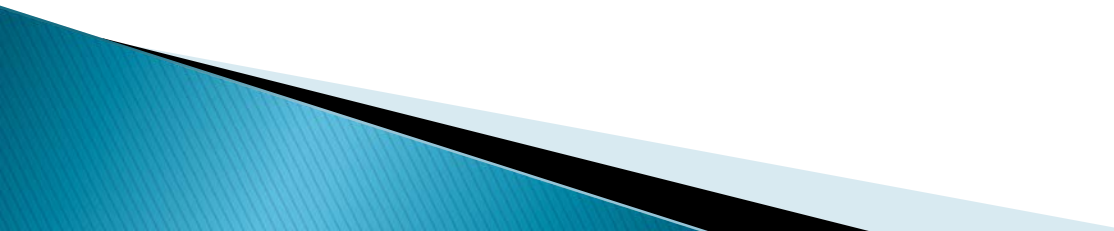
PERSONAL PROPERTY TAX EXEMPTION

- ▶ Semipublic institutions (IRC 501(c)(3)) may qualify for personal property tax exemption.
 - ▶ A semipublic institution means any corporation, and any community chest, fund or foundation, organized exclusively for religious, scientific, charitable, or educational purposes, including hospitals, no part of the net earnings of which inures to the benefit of any private shareholder or individual.
 - ▶ The effective date for a personal property tax exemption shall be the July 1 following the date of the initial application request.
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SALES TAX EXEMPTION

- ▶ Semipublic institutions may qualify for sales tax exemption provided the organization has a location/office in DC

FRANCHISE TAX EXEMPTION

- ▶ Generally, most organizations recognized tax exempt by the IRS except social clubs (IRC 501(c)(7)) qualify for franchise tax exemptions.
 - ▶ Exempt organizations are required to collect DC sales tax on sales of tangible personal property even though the exempt organization is exempt from DC Sales and Use Tax on purchases of tangible personal property or services.
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QUESTIONS

- ▶ For additional exempt organization questions, call Tax Auditor, Genevieve Menan at (202) 442-6444.

ESTATE TAX and CIGARETTE TAX

Presented By:
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ESTATE TAXES

When It Must Be Filed:

A District of Columbia Estate Tax Return (Form D-76 or Form D-76EZ) must be filed when the estate is \$1,000,000 (\$1million) or more, even if the Federal Tax Return (IRS Form 706, for individuals dying in 2002 and thereafter) is not required to be filed.

Who Must File:

The District of Columbia Estate Tax Return must be filed by the Personal Representative responsible for administering the estate of the decedent taxpayer.

ESTATE TAXES

Filing Due Date:

Within ten (10) months after the Date of Death of the decedent who died as a resident of the District and/or the decedent who died as a non-resident of the District that owned real property in the District; tangible personal property customarily located in the District, and intangible personal property used in a trade or business in the District.

Extension of Time to File:

A 6-month extension of time to file may be requested by filing a FR-77 DC Application for Extension of Time to File. The Office of Tax and Revenue will not accept the Federal Form 4768, Application for Extension of Time to File a Return.

ESTATE TAXES

Interest

Beginning January 1, 2003, interest is charged at the rate of 10% per year, compounded daily without regard to any extension.

Penalty

A penalty of 5% per month or any fraction of a month up to a maximum of 25% of the tax will be imposed upon the failure to timely file a return and/or upon the failure to timely pay the tax. This penalty applies without regard to any extension of time in filing the return.

ESTATE TAXES

Supplemental Documents (Attach copies of the following to the tax return):

- DC Application for Extension of Time to File (Form FR-77), if filed;
- Pages 1, 2 and 3 from the current IRS Form 706;
- Schedules A through O from IRS Form 706, including all attachments;
- A Copy of the Death Certificate;
- A Copy of the Will and/or Letter of Administration; and
- A Copy of any document of Appraisal of the Decedent's Estate at the time of death or an alternative date.
- In some cases, a copy of the IRS Estate Tax Closing Document

ESTATE TAXES

Amended Return and Federal Changes

A District of Columbia Amended Estate Tax Return (D-76A) must be filed if:

An Amended Federal Estate Tax Return is filed,
or a federal adjustment is made. A copy of the
Amended Federal Estate Tax Return must be
submitted with the return.

CIGARETTE TAX

CIGARETTE EXCISE TAX INCREASE

In October 2011, the District of Columbia implemented a surtax in lieu of sales tax on cigarettes. The surtax is levied on the wholesalers doing business in the District.

Effective October 1, 2014 there was an increase to the District of Columbia cigarette surtax.

The cigarette surtax increased from \$0.36 to \$0.40 cents per package of 20 cigarettes. The cigarette excise tax remained the same at \$2.50 per package of 20 cigarettes, resulting in a combined cigarette excise tax of **\$2.90** per package of 20 cigarettes.

Cigarette Tax Compliance Program

Team of investigators to inspect cigarettes

- ▶ Random inspections of retailers
- ▶ Examine all cigarettes on the premise
- ▶ Verify merchant's tobacco license
- ▶ Examine purchase invoices or receipts to determine cost and retail price to ensure compliance with minimum pricing laws

CIGARETTE TAX VIOLATIONS

- Possession of unstamped cigarettes
- Possession of false tax stamps
- Possession of altered and/or counterfeit tax stamps
- Possession of grey market cigarettes – cigarettes marked for “For Export Only” or “US Tax Exempt”
- Possession of non-DC stamped cigarettes
- Minimum pricing of cigarettes
- Sale of Loose Cigarettes
- Possession of Non-Tobacco Directory cigarettes – all cigarette brands for sale not included in the DC Tobacco Directory are considered contraband

Cigarette Violation Penalty

Anyone selling cigarettes in violation are subject to the following civil penalties:

- Illegal cigarettes are subject to seizure and forfeiture.
- A penalty of 500% of the retail value of the cigarettes or \$5,000, whichever is greater
- Suspension or revocation of the Tobacco business license

CIGARETTE TAX APPEAL RIGHTS

Cigarette tax violators are entitled to appeal cigarette citations